

Capturing Value through Satellite Holdings

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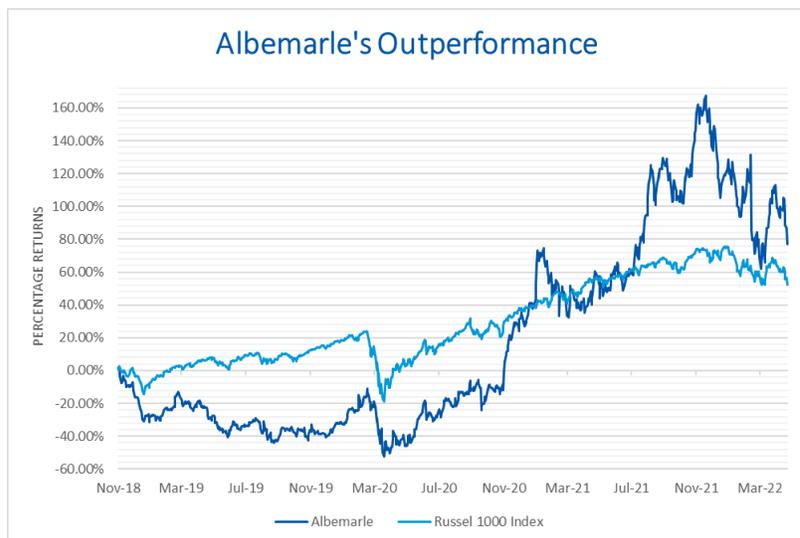
The CUSP applies a value-oriented investment style by seeking out equities that are priced with a margin of safety while possessing promising characteristics for future growth. The portfolio is benchmarked against the Russel 1000 index. Managers monitor and evaluate the 58 holdings and maintain sector weights approximately in line with the benchmark. They employ a core-satellite approach that provides the opportunity to establish financial stability in core holdings while pursuing smaller companies with ample future cash flows and robust growth prospects. Approximately half of the portfolio holdings are considered core.

Throughout the year, smaller cap companies are prone to mergers and acquisitions that would materially change the outlook for future operations. One result of the core-satellite strategy is that changes in one company currently in the portfolio can have more of an effect than the broader index because of the limited number of holdings. Adding satellite holdings to the portfolio is attractive for a number of reasons. First, smaller companies present opportunities for attractively valued equities that hopefully provide above-core capital appreciation. Second, a combination of core and satellite holdings will hopefully allow the portfolio to outperform the benchmark. Lastly, the CUSP long-term approach permits the student managers to control volatility by investing in core companies that are positioned well financially and economically. An overarching goal is to try to mitigate the negative impact of an economic downturn while still providing for gains in good economic times.

An example of a satellite company is Albemarle Corp Com (ALB) in the Materials sector. In November 2018, the Materials team analyzed the company and presented the firm as a potential buy to the class. Albermarle produces specialty chemicals, such as plastics, polymers, and cleaning products globally, with around 75% of revenues occurring outside the United States. CUSP fund managers found the company's product array attractive. Its largest

segment is lithium, but it also produces bromine specialties that make fire safety products and other chemicals. The diversification in product lines, efficient acquisition targeting, economic resiliency, valuation and expansion opportunities led student managers to add 1,450 shares of ALB to the portfolio. The firm's relative weighting within the CUSP exceeds its weighting in the Russell 1000, meaning any unusual performance will be meaningful to the CUSP from period to period.

Another satellite holding of the CUSP portfolio was acquired in March 2022, when the managers approved the purchase of Teradyne, Inc (TER). A part of the Information Technology sector of the Russell 1000, Teradyne is a manufacturer of semiconductor test equipment and automation solutions. The managers viewed Teradyne's unique strategic position in a desirable industry as a driver of superior



future growth. Based on Teradyne's fundamental characteristics and valuation compared to peers, the managers are optimistic about Teradyne's ability to outperform its peers. As with other satellite holdings, the stock will be monitored carefully as the firm's business environment and equity value change.

One core holding that was reevaluated this year and held by the CUSP is Philip Morris International (PM). Known historically as a producer and distributor of cigarettes and other tobacco products, the firm has been under increasing scrutiny from a CSR perspective and the impact they have on communities. After further consideration, the managers voted to maintain Philip Morris as a core holding of the portfolio based on its efforts to reinvent its business model towards healthier alternatives. Philip Morris earns 30% of its revenues from smoke-free products and has set ambitious goals towards reaching 50% by 2025. The firm's strong R&D commitments in the heated tobacco space are helping millions of people quit smoking and expanding its operating margins with favorable pricing mix in the process. The managers are confident in Philip Morris' direction and continued success, demonstrating the approach taken to reviewing the prospects of core holdings.